

Quarterly Economic Review

*A Comparison of Selected National, Regional,
and Local Economic Indicators*
Loudoun County Department of Economic Development



Volume 2, Issue 2

Second Quarter 2004

Shifting Gears

By nearly any measure, the national economy is strong. Gross domestic product, the most widely quoted economic barometer, has increased for ten consecutive quarters. Its recent growth rate of 4.4 percent in the first quarter of 2004 capped a year of growth that has well outpaced historic norms. A third of that growth has been related to investment as corporations add equipment and increase inventories trying to keep up with surging demand. Capacity utilization, after experiencing its worst downturn in a generation, is markedly improving and should approach its long run average within 6 months. As it does, producers will observe decreases in their ability to meet demand and will be pressured to expand. Relatively low interest rates and record profits will further encourage them to do so. Simply put, investment, the second largest piston in the nation's economic engine, appears to be ready to fully fire.

Employment growth, until recently a noticeably absent component in the current economic recovery, appears to be back with vigor. In the last three months alone, the nation has added 947,000 net new jobs. At the current pace, 2004 job growth will near three million, not far from the levels experienced in the heady days of the late 1990s. More encouraging is the breadth of that growth. In the latest quarter, every private sector industry added jobs. Even manufacturing, having recently endured a 40-month drought, has added employment for 5 consecutive months, increasing by 91,000 in that period. A closer review of the manufacturing industry reveals that a large share of that growth is occurring in sectors such as fabricated metals and nonmetallic mineral (concrete), typically inputs into other goods and capital investments, and building blocks of future growth.

Recent employment figures offer optimism for local economies. Information employment, after a 33-month slide eliminating a fifth of its workforce, appears to have turned the corner and is poised to return to growth nationally some time this summer. Growth in that industry will be particularly beneficial to the local economy as Loudoun County is among the nation's leaders in its concentration in that industry. An information sector expansion will add another driver to Loudoun County's economy, already enjoying growth from construction, trade, and services.

In the current environment there are minimal areas of concern. Among them however is the threat of terrorism, and building inflationary pressures, particularly in energy. Although the threat of terrorism and political tension have resulted in a stagnation of consumer confidence, as long as those consumers do not become hesitant at the cash register, the threat of those effects will not likely constrain domestic growth. Inflationary pressures will almost certainly require federal officials to slow growth by raising interest rates. However, a review of Loudoun County's economy during years of increasing interest rates would belay fears that a tap on the brakes may slow local growth. In the last five business cycles, Loudoun's employment increased by 7.6% per year in years of increasing federal funds rates versus 5.9% in years of declining federal funds rates.

Absent any external impacts, the national economy is poised for significant growth and as one of the nation's healthiest regions positioned in the nation's healthiest sectors, local economic growth is likely to follow.

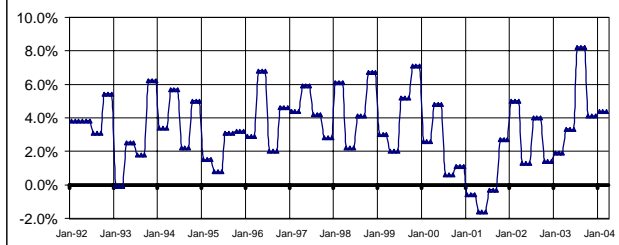
The data contained herein were obtained from sources that are believed to be reliable, but the accuracy of those figures is not guaranteed. Further, commentary contained in this publication is opinion and should be treated as such.

For more information on this publication, please contact Cindy Richmond at crichmon@loudoun.gov

National Economic Indicators

Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

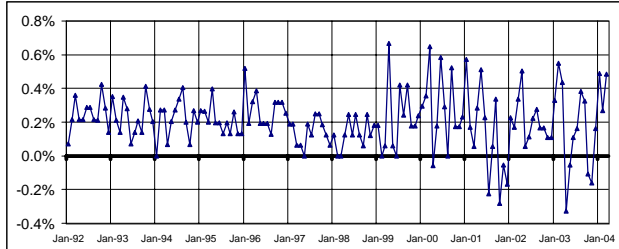


Recent Trend: **INCREASING**

GDP increased by 4.4% in the first quarter of 2004 following 4.1% in the fourth quarter of 2003. GDP growth has been positive for ten consecutive quarters and has exceeded its long-term historic average for three quarters. Increases in GDP in the first quarter were largely driven by increases in consumption, computer and software investment, and defense spending.

Consumer Price Index

This variable measures the month over month percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

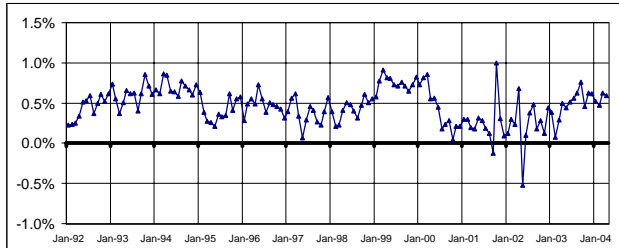


Recent Trend: **INCREASING**

April's CPI increased by 0.2% following a 0.5% increase in March. The annualized pace of price increases in the first four months of 2004 was 4.4%, more than double the 2003 rate of 1.9%. An inflation rate in excess of 4% would be the fastest rate of price increases since 1990. Increases in price levels have been most dramatic in energy and transportation costs.

Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading day differences, but not for price changes. Source: Census Bureau.

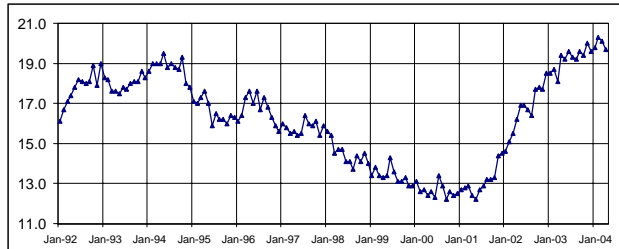


Recent Trend: **INCREASING**

Retail sales declined moderately in April after registering atypically strong growth in March. Retail sales have been trending upward for a year and are now growing at levels similar to those seen in the late 1990s. An increasingly healthy labor market will likely contribute to consumer confidence and encourage consumers to continue spending.

Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.

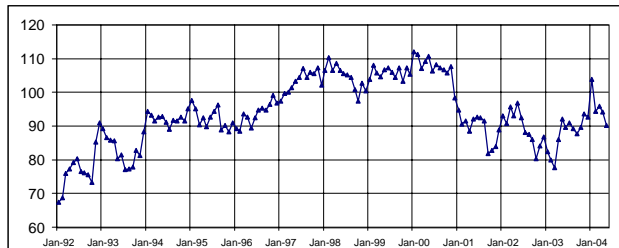


Recent Trend: **INCREASING**

After registering a ten-year high, the unemployment duration recently declined for two consecutive months reaching 19.7 weeks in April 2004. That measure remained above levels seen in the 1991 recession suggesting that the labor market recovery is still in its early stages. Recent strength in employment growth nationally will likely result in declines in the average unemployment duration.

Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

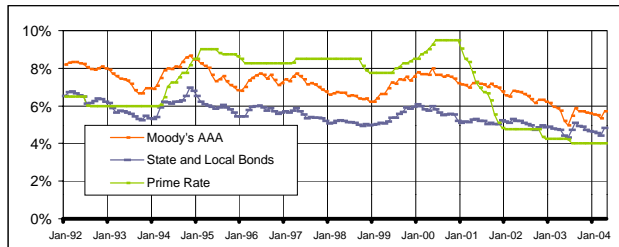


Recent Trend: **UNCLEAR**

Consumer sentiment pulled back from a three year high registered in January 2004 and fell to 90.2 in May. Despite recent improvements in job growth, geopolitical instability and spiraling energy prices weighed on consumers' outlooks. Continued stagnation in consumer confidence could adversely affect future retail sales, particularly in more expensive durable goods.

Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



Recent Trend: **UNCLEAR**

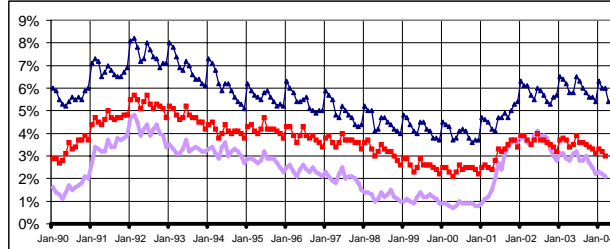
Interest rates increased in April, ending seven consecutive months of decline. Although rates remain at historically low levels, most economists agree that they will increase in the near term as the economy continues to recover and inflationary pressures build. Rates for AAA bonds, which are typically very close to 30-year fixed mortgage rates, were 5.73% in April 2003.

Regional and Local Indicators

— Loudoun County — Washington PMSA — U.S.

Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.

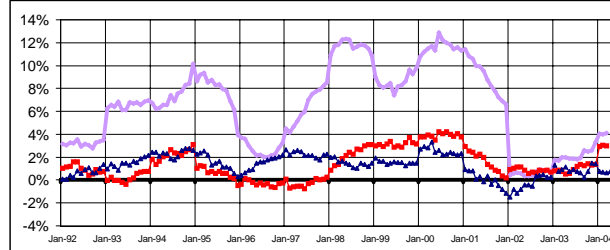


Recent Trend: **DECREASING**

Local labor markets continued to tighten through April 2004. Unemployment rates in Loudoun and Washington were 2.1% and 3.0% respectively and were significantly lower than the U.S. average. Among the nation's largest metro areas, Washington's unemployment rate is the lowest. By any measure, Washington's labor market is among the healthiest in the U.S.

Civilian Employment

This variable measures the annual percent change in non-farm payroll employment on a place of residence basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.

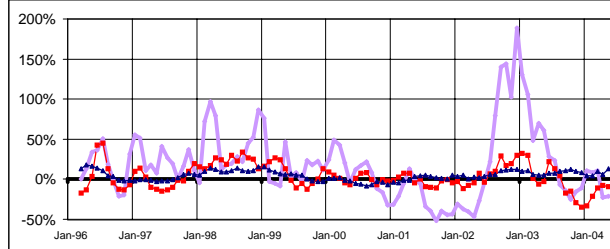


Recent Trend: **INCREASING**

Local and regional employment growth significantly outpaced the U.S. in the first quarter of 2004. Employment growth rates in Loudoun and the Washington Metro area in March 2004 were 4.1% and 3.0% respectively, well above the 0.7% U.S. rate. The region added 55,000 jobs in the first quarter of 2004, outpacing almost all other large metro areas in that period.

Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.

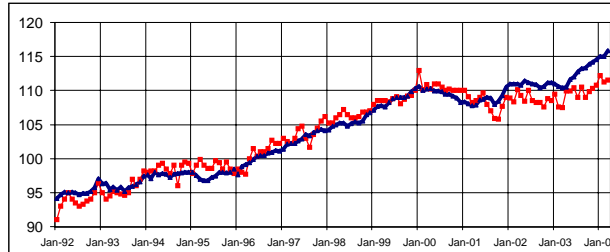


Recent Trend: **UNCLEAR**

Loudoun County issued 2,126 building permits in the first three months of 2004 and continues to be among the leaders in the metro area in its volume of building permits issued. At the current pace, Loudoun will issue 6,341 permits housing approximately 17,000 new residents in 2004. Building permits are increasing at a slightly slower rate than comparable figures from last year.

Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.

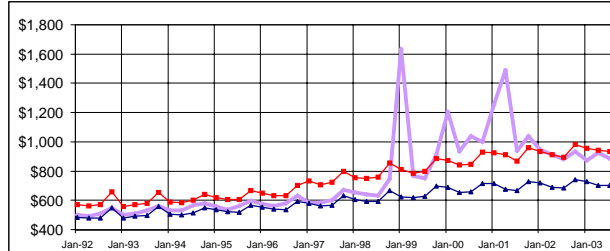


Recent Trend: **INCREASING**

Twelve consecutive monthly increases in the U.S. Leading Indicators characterizes the increasing strength of the national recovery. Similarly, the Washington Leading Index has increased for five of the last six months. Increased building permits added to advances in these indicators. Continued increases in these measures suggest that economic growth is likely throughout 2004.

Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.

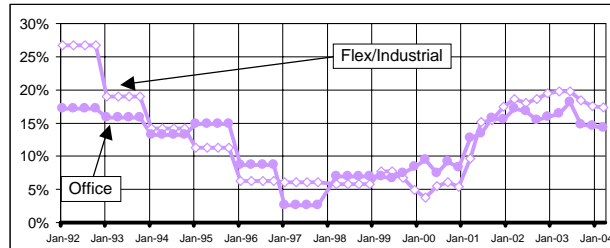


Recent Trend: **DECREASING**

Local wages continue to exceed the U.S. average. In the third quarter of 2003, average weekly wages were \$887 and \$935 in Loudoun and Washington respectively. That compares to the U.S. average of \$704. Wages in Loudoun have demonstrated a downward trend since 2001, likely due to increases in retail employment associated with a rapidly growing population.

Loudoun's Vacancy Rates

These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



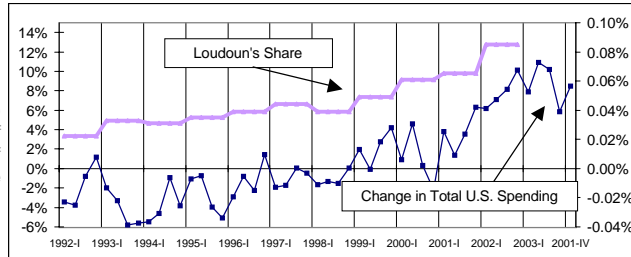
Recent Trend: **UNCLEAR**

Commercial vacancy rates in Loudoun have declined for three consecutive quarters. Office vacancy rates were 14.3% in the first quarter of 2004, a three-year low. Flex/Industrial rates were 17.3% in that period. Continued declines in vacancy rates are likely in Loudoun given a rapidly growing employment base that is outpacing commercial permitting activity.

Government Finance

Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

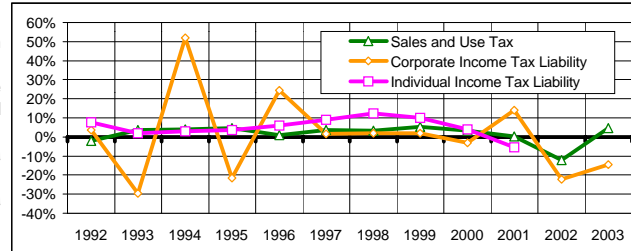


Recent Trend: **INCREASING**

Federal spending continued its rapid increase in the first quarter of 2004 led by a 13.1% increase in defense spending. Non-defense spending increased by 1.5% in that quarter. Increases in defense spending likely add to Loudoun's economy as that area has been an increasingly large recipient of those funds. Loudoun receives about 0.5% of all U.S. defense funding.

State Revenue Components

This graph displays the inflation adjusted year over year change in selected state revenue components including individual and corporate income tax and sales tax. Sales tax data exclude the transportation component. Source: Virginia Department of Taxation.

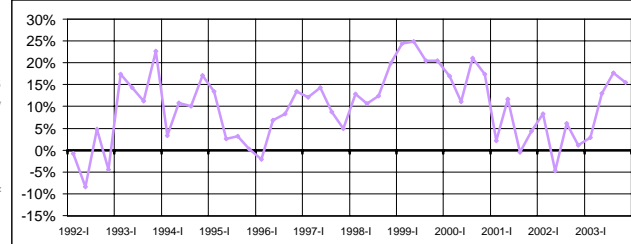


Recent Trend: **UNCLEAR**

Virginia's General Fund increased by 2.0% in FY 2003 after a moderate decline in FY 2002. The recent increase was due in part to gains in sales tax revenues. Sales tax revenue increased by almost 5.0% in FY 2003, adjusted for inflation, the fastest pace since 1999. Corporate income tax revenues, only 5.0% of total revenue, have declined for two consecutive years.

Taxable Retail Sales

This variable measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

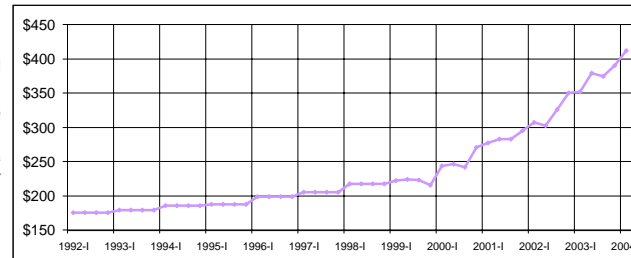


Recent Trend: **INCREASING**

Retail sales in Loudoun continue to demonstrate rapid growth and have increased by more than 10% for three consecutive quarters. Retail sales averaged \$791.9 million per quarter in 2003, adjusted for inflation. Current trends suggest that Loudoun's retail sector will generate in excess of one billion in sales each quarter sometime before the end of the current decade.

Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.



Recent Trend: **INCREASING**

Housing prices in Loudoun increased by 16.8% between the first quarter 2003 and the first quarter 2004. During that period, housing prices increased by 19.0% in the Washington and by 6.5% in the U.S. Prices for condos grew most rapidly in Loudoun, increasing by 29.8% over that period. Most economists expect housing prices to level off due to increasing interest rates.

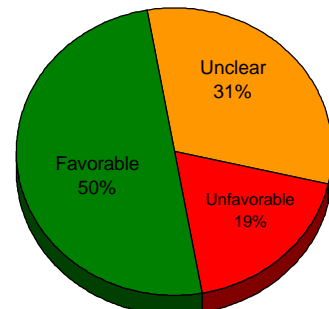
Summary

	Trend	
Gross Domestic Product	INCREASING	
Consumer Price Index	INCREASING	
Retail Sales	INCREASING	
Unemployment Duration	INCREASING	
Consumer Sentiment	UNCLEAR	
Interest Rates	UNCLEAR	
Unemployment Rate	DECREASING	
Civilian Employment	INCREASING	
Residential Bldg. Permits	UNCLEAR	
Leading Indicators	INCREASING	
Average Weekly Wages	DECREASING	
Loudoun's Vacancy Rates	UNCLEAR	
Federal Spending	INCREASING	
State Revenue Components	UNCLEAR	
Taxable Retail Sales	INCREASING	
Average Housing Sales Price	INCREASING	

Number of Indicators

Favorable	8
Unclear	5
Unfavorable	3

Current Distribution of Indicators



For more information on this publication, please contact Cindy Richmond at crichmon@loudoun.gov